

**REPORT OF THE AUDIT OF THE  
BUTLER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Butler County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances increased by \$55,442 from the beginning of the year, resulting in a cash surplus of \$1,246,130 as of June 30, 2003.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$726,839 as of June 30, 2003. Future principal and interest payments of \$983,093 are needed to meet these obligations.

#### **Report Comment:**

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$259,797 To Protect Deposits



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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Hugh C. Evans, Butler County Judge/Executive  
Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Butler County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund type; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Butler County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Butler County, Kentucky, as of June 30, 2003, and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Hugh C. Evans, Butler County Judge/Executive  
Members of the Butler County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2004, on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$259,797 To Protect Deposits

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Butler County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 10, 2004



BUTLER COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Hugh C. Evans	County Judge/Executive
Kathy Bratcher	Magistrate
Rollie Clark	Magistrate
Stevie Givens	Magistrate
Allen Smith	Magistrate
Roger McKinney	Magistrate

**Other Elected Officials:**

Richard Deye	County Attorney
Terry Fugate	Jailer
Diane Ingram	County Clerk
Bonnie Howard	Circuit Court Clerk
Kenneth Morris	Sheriff
Richard Embry	Property Valuation Administrator
Gerald Jones	Coroner

**Appointed Personnel:**

Angela Pendley	County Treasurer
Suzanne Brosman	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

BUTLER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type	Proprietary Fund Type	Totals (Memorandum Only)	
	General	Debt Service	Enterprise	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,245,637	\$ 152	\$ 3,283	\$ 1,249,072
Total Assets	\$ 1,245,637	\$ 152	\$ 3,283	\$ 1,249,072
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Capital Lease	\$ 204,839	\$ 521,848	\$	\$ 726,687
Total Other Resources	\$ 204,839	\$ 521,848	\$ 0	\$ 726,687
Total Assets and Other Resources	\$ 1,450,476	\$ 522,000	\$ 3,283	\$ 1,975,759

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2003  
 (Continued)

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease	\$ 204,839	\$ 522,000	\$	\$ 726,839
Total Liabilities	<u>\$ 204,839</u>	<u>\$ 522,000</u>	<u>\$ 0</u>	<u>\$ 726,839</u>
<u>Equity</u>				
Retained Earnings:				
Restricted	\$	\$	\$ 3,283	\$ 3,283
Fund Balances:				
Unreserved	<u>1,245,637</u>			<u>1,245,637</u>
Total Equity	<u>\$ 1,245,637</u>	<u>\$ 0</u>	<u>\$ 3,283</u>	<u>\$ 1,248,920</u>
Total Liabilities and Equity	<u>\$ 1,450,476</u>	<u>\$ 522,000</u>	<u>\$ 3,283</u>	<u>\$ 1,975,759</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

BUTLER COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,752,141	\$ 1,140,205	\$ 317,368	\$ 50,886
Other Financing Sources:				
Transfers In	61,600		148,200	
Kentucky Advance Revenue Program	183,042			
Total Cash Receipts	<u>\$ 1,996,783</u>	<u>\$ 1,140,205</u>	<u>\$ 465,568</u>	<u>\$ 50,886</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,615,745	\$ 1,023,892	\$ 482,918	\$
Other Financing Uses:				
Transfers Out	148,200	61,600		
Capital Lease - Interest Paid				
Capital Lease - Principal Paid	48,557	30,145		
Trust Service Fees				
Kentucky Advance Revenue Program Repaid	183,042			
Total Cash Disbursements	<u>\$ 1,995,544</u>	<u>\$ 1,115,637</u>	<u>\$ 482,918</u>	<u>\$ 0</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,239	\$ 24,568	\$ (17,350)	\$ 50,886
Cash Balance - July 1, 2002	786,104	348,482	26,282	22,484
Cash Balance - June 30, 2003	<u>\$ 787,343</u>	<u>\$ 373,050</u>	<u>\$ 8,932</u>	<u>\$ 73,370</u>

The accompanying notes are an integral part of the financial statements.



BUTLER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Debt Service Fund Type		
Courthouse Sinking Fund	Totals (Memorandum Only)	
\$ 47,814	\$ 3,308,414	
	209,800	
	183,042	
\$ 47,814	\$ 3,701,256	
\$	\$ 3,122,555	
	209,800	
23,670	23,670	
26,000	104,702	
23	23	
	183,042	
\$ 49,693	\$ 3,643,792	
\$ (1,879)	\$ 57,464	
2,031	1,185,383	
\$ 152	\$ 1,242,847	

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE



BUTLER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	
Jail Canteen Receipts	<u>\$ 48,154</u>
Total Cash Receipts	<u>\$ 48,154</u>
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	<u>\$ 50,176</u>
Total Cash Disbursements	<u>\$ 50,176</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (2,022)
Cash Balance - July 1, 2002	<u>5,305</u>
Cash Balance - June 30, 2003	<u><u>\$ 3,283</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE





BUTLER COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Loss	\$ (2,022)
Net Cash (Used) By Operating Activities	<u>\$ (2,022)</u>
Net Decrease In Cash	\$ (2,022)
Cash and Cash Equivalents - July 1, 2002	<u>5,305</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 3,283</u></u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Butler County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Butler County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Butler County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund and Local Government Economic Assistance Fund.

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Courthouse Sinking Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Butler County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Butler County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Governor's Office for Local Development does not require this fund to be budgeted.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$259,797 of public funds uninsured and unsecured.

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 210,266
Collateralized with securities held by the county's agent in the county's name	1,324,428
Uncollateralized and uninsured	<u>259,797</u>
Total	<u>\$ 1,794,491</u>

Note 4. Lease Agreements

The county has entered into the following lease agreements:

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2003, was \$522,000. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 32,422	\$ 27,000
2005	28,163	28,000
2006	26,507	29,000
2007	24,769	31,000
2008	22,938	32,000
2009-2013	83,910	187,000
2014-2017	<u>23,695</u>	<u>188,000</u>
	<u>\$ 242,404</u>	<u>\$ 522,000</u>

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Lease Agreements (Continued)

B. Fire Truck

On December 30, 1999, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The principal was \$41,000 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$28,940. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 803	\$ 4,055
2005	679	4,172
2006	555	4,292
2007	426	4,416
2008	294	4,543
2009-2010	185	7,462
	<u>\$ 2,942</u>	<u>\$ 28,940</u>

C. Fire Truck

On November 30, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The principal was \$48,902 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$38,653. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,082	\$ 4,691
2005	938	4,826
2006	795	4,965
2007	646	5,108
2008	494	5,255
2009-2011	534	13,808
	<u>\$ 4,489</u>	<u>\$ 38,653</u>

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Lease Agreements (Continued)

D. Chip Spreader

On March 12, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a chips spreader. The principal was \$60,680 at a rate of 4.31% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$38,058. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,100	\$ 14,147
2005	525	13,518
2006	129	10,393
	<u>\$ 1,754</u>	<u>\$ 38,058</u>

E. Ambulance

On October 30, 2000, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of an ambulance. The principal was \$69,550 at a rate of 4.53% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2003, was \$34,403. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,543	\$ 14,304
2005	736	14,961
2006	60	5,138
	<u>\$ 2,339</u>	<u>\$ 34,403</u>

BUTLER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Lease Agreements (Continued)

F. Ambulance

On August 27, 1999, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of an ambulance. The principal was \$130,000 at a rate of 3.76% interest for a period of 5 years, interest and principal paid monthly. However, in November 2003, the Butler County Fiscal Court paid the remaining amount of the lease payment requirements as reflected in the schedule below. Principal outstanding as of June 30, 2003, was \$32,660. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 348</u>	<u>\$ 32,660</u>

G. Dump Truck

On October 25, 2001, the Butler County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a dump truck. The principal was \$51,725 at a rate of 3.73% interest for a period of 5 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003, was \$32,125. Future lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,066	\$ 10,330
2005	664	10,705
2006	<u>248</u>	<u>11,090</u>
	<u>\$ 1,978</u>	<u>\$ 32,125</u>

Note 5. Insurance

For the fiscal year ended June 30, 2003, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



BUTLER COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,372,300	\$ 1,752,141	\$ 379,841
Road and Bridge Fund	1,106,342	1,140,205	33,863
Jail Fund	298,573	317,368	18,795
Local Government Economic Assistance Fund	36,949	50,886	13,937
Totals	<u>\$ 2,814,164</u>	<u>\$ 3,260,600</u>	<u>\$ 446,436</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 2,814,164
Add: Budgeted Prior Year Surplus	674,928
Add: Budgeted Borrowed Money	339,600
Less: Budgeted Other Financing Uses	<u>(281,536)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 3,547,156</u>

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SCHEDULE OF OPERATING REVENUE



BUTLER COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPE</u>			
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 1,229,532	\$	\$ 1,229,532
In Lieu Tax Payments	34,932		34,932
Excess Fees	93,064		93,064
Intergovernmental Revenues	1,593,450	47,680	1,641,130
Charges for Services	246,837		246,837
Miscellaneous Revenues	39,694		39,694
Interest Earned	23,091	134	23,225
Total Operating Revenue	<u>\$ 3,260,600</u>	<u>\$ 47,814</u>	<u>\$ 3,308,414</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



BUTLER COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 546,301	\$ 506,093	\$ 40,208
Protection to Persons and Property	1,083,611	1,010,973	72,638
General Health and Sanitation	159,373	153,892	5,481
Social Services	3,910	3,110	800
Recreation and Culture	5,140	4,607	533
Roads	1,027,545	887,544	140,001
Capital Projects	4,000	79	3,921
Administration	717,276	556,257	161,019
Total Operating Budget - General Fund Type	\$ 3,547,156	\$ 3,122,555	\$ 424,601
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	202,834	183,042	19,792
Capital Lease Agreement-			
Principal on Leases	78,702	78,702	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,828,692</u>	<u>\$ 3,384,299</u>	<u>\$ 444,393</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Hugh C. Evans, Butler County Judge/Executive  
Members of the Butler County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Butler County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated June 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Butler County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$259,797 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 10, 2004



COMMENT AND RECOMMENDATION



BUTLER COUNTY  
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITIONS:

None

NONCOMPLIANCE:

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$259,797 To Protect Deposits

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On August 31, 2002, \$259,797 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Hugh C. Evans' Response:*

*We have notified our bank every year to make sure our pledges are adequate.*

PRIOR YEAR FINDING:

In the prior year audit report, we reported the following comment and recommendation:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$163,303 To Protect Deposits

This finding has not been corrected and has been commented on in the current audit report.

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2003




**CERTIFICATION OF COMPLIANCE**

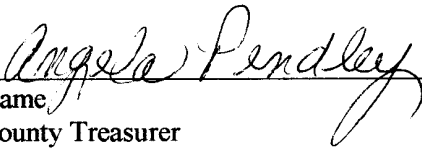
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**BUTLER COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2003**

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
County Judge/Executive

  
\_\_\_\_\_  
Name  
County Treasurer





